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October 7, 2015

Mrs. Susan M. Hudson, Clerk
Vermont Public Service Board
112 State Street
Montpelier, Vermont 05620-2701

Re: Docket No. 7970 – Memorandum of Understanding between the Department of
Public Service and Vermont Gas Systems, Inc.

Dear Mrs. Hudson:

Today, Vermont Gas Systems, Inc. (VGS or the Company) has filed a Memorandum of Understanding (MOU) entered into between VGS and the Department of Public Service (Department) intended to advance the Addison County Natural Gas Project (Project) for the benefit of Vermont.

Among other provisions, the MOU places a cap on the costs that may be sought and potentially recovered in a rate case, provided the pending Rule 60(b) proceedings are resolved by the Board by January 8, 2016. Absent extraordinary circumstances, the maximum costs the Company may seek to recover for this Project will be \$134 million, which reflects the last cost estimate reviewed by the Board (\$122 million) plus a 10% contingency. This is fully \$20 million less than the current estimated cost of the Project, and it brings the potential costs to ratepayers down to a level more comparable to the prior Rule 60(b) proceeding in which the Board continued to find the Project was in the public good. The only exceptions to this cap are if there are delays to the Project beyond the control of VGS due to force majeure type circumstances, as well as interference with Project construction or material delays in right of way construction access.

Significantly, the MOU preserves all rights of the Department to review, investigate and challenge costs associated with the Project at the proper time in a rate case to be initiated next year. The MOU also requires that the Company fully cooperate in any further proceeding to investigate the timeliness of any cost estimate disclosures throughout the development and construction of the Project, should the Board decide to initiate one.



The Department feels very strongly that this Project remains in the interest of Vermont and is in the general good of the state. The price cap established by this MOU, in tandem with ensuing rate reviews, will ensure that the Project's benefits will be substantial and ratepayers' interests will be protected.

We enter into this agreement because while we recognize this has been a challenging Project for all, this construction season we've seen a change in which the budget has been maintained and the construction work has been performed efficiently and with excellent quality control. We are confident going forward that VGS has the construction management procedures and people in place to complete this Project on time and on budget if they are allowed to move forward with certainty. However, we are concerned that an untimely resolution of the Rule 60(b) proceeding may, in and of itself, actually increase the cost of the Project overall and jeopardize completion of the Project itself. Vermont Gas has recently informed us that prolonged delays in the resolution of the pending Rule 60(b) proceeding will likely cause it to reconsider whether it finishes this important infrastructure Project. While we recognize the difficulties involved in resolving the present Rule 60(b) proceeding, we felt it imperative to take action that promptly informs the Board of this development, and that does so in a way that limits ratepayer exposure to Project costs, preserves all regulatory reviews, and ensures that the Project's fate is decided affirmatively, rather than through prolonged regulatory uncertainty.

We hope the Board considers the commitments and ratepayer protections identified in this MOU and promptly resolves the pending Rule 60(b) proceeding to clearly conclude this Project remains in the public good. To that end, the Department reiterates its support for the workshop requested by Vermont Gas and stands ready to answer any questions the Board may have pertaining to the substance of the MOU at that time.

Respectfully,



Christopher Recchia
Commissioner